

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Pickford Utility Authority	County Chippewa
Fiscal Year End June 30, 2006	Opinion Date August 24, 2006	Date Audit Report Submitted to State November 15, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-495-5952	
Street Address 16978 S. Riley Avenue		City Kincheloe	State MI
		Zip 49788	
Authorizing CPA Signature <i>Kenneth A. Talsma</i>	Printed Name Kenneth A. Talsma		License Number 1101024989

**PICKFORD UTILITY AUTHORITY**

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**BASIC FINANCIAL STATEMENTS**

June 30, 2006

## **TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>INDEPENDENT AUDITOR’S REPORT</b> .....	1
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b> .....	3
<b>BASIC FINANCIAL STATEMENTS:</b>	
Statement of Net Assets .....	6
Statement of Revenues, Expenses, and Changes in Net Assets .....	7
Statement of Cash Flows .....	8
<b>NOTES TO FINANCIAL STATEMENTS</b> .....	9
<b>COMPLIANCE SECTION</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i> .....	15



**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
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KENNETH A. TALSMAN, CPA, PRINCIPAL  

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DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S REPORT**

Pickford Utility Authority  
Pickford, Michigan 49774


We have audited the accompanying financial statements of the business-type activities and major fund of the Pickford Utility Authority as of and for the year ended June 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and major fund of the Pickford Utility Authority as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2006, on our consideration of the Pickford Utility Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on page 3 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

  
**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

August 24, 2006

## **Management's Discussion and Analysis**

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**Using this Annual Report**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances.

**The Authority as a Whole**

The Authority's combined net assets decreased 3.99% from a year ago decreasing from \$1,057,096 to \$1,014,958. The business-type activities experienced a \$42,138 decrease in net assets, primarily as a result of depreciation expense. In a condensed format, the table below shows the net assets as of the current date. Because the Authority is only required to have an audit conducted every other year, a two year comparison will not be available.

In a condensed format, the table below shows the net assets of Pickford Utility Authority.

	Business-Type Activities 2006
Current Assets	\$ 19,783
Noncurrent Assets	<u>1,115,838</u>
Total Assets	<u>1,135,621</u>
Long-Term Debt Outstanding	100,000
Other Liabilities	<u>20,663</u>
Total Liabilities	<u>120,663</u>
Net Assets	
Invested in Capital Assets - Net of Debt	995,838
Unrestricted (Deficit)	<u>19,120</u>
Total Net Assets	<u>\$ 1,014,958</u>

The current level of unrestricted net assets for our business-type activities stands at \$19,120, or about 17% of expenses. This is within the targeted range set by the Authority's Board of Directors during its last budget process.

The following table shows the activities of the Authority.

	<u>Business-Type Activities 2006</u>
Revenues	
Charges for Services	\$ 33,482
Interest and Other	<u>37,564</u>
Total Revenues	<u>71,046</u>
Expenses	
Operations	38,644
Interest Expense	7,000
Depreciation Expense	<u>67,540</u>
Total Expenses	<u>113,184</u>
Changes in Net Assets	(42,138)
Net Assets – Beginning	<u>1,057,096</u>
Net Assets – Ending	<u>\$ 1,014,958</u>



**Business-Type Activities**

The Authority's total business-type revenues decreased by approximately \$16,750, primarily due to the decrease in Township contracts. The second largest decrease, compared to the prior year, was miscellaneous revenues of \$16,471.

Expenses decreased by only about \$9,501 during the year. This was primarily the result of close budget monitoring throughout the year.

**Capital Asset and Debt Administration**

At the end of 2006, the Authority had \$1,115,838 invested in a broad range of capital assets, including storage buildings, machinery and equipment, and sewer lines.

The Authority reduced its bond debt load by \$20,000 in principal payments in fiscal year 2006 ending with a debt balance of \$120,000.

**Economic Factors and Next Year's Budgets and Rates**

A direct reflection of a soft economy, the Authority's 2007 budget will be tight essentially a "hold the line" document when compared to the 2006 program.

Insurance costs continue to increase.

**Contacting the Authority's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Authority at (906) 647-3361.

## **Basic Financial Statements**

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**ASSETS**

## Current Assets:

Cash and Equivalents	\$ 19,783
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## Noncurrent Assets:

Capital Assets not Depreciated	21,000
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Capital Assets (Net of Accumulated Depreciation)	<u>1,094,838</u>
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TOTAL NONCURRENT ASSETS	<u>1,115,838</u>
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TOTAL ASSETS	<u>\$ 1,135,621</u>
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**LIABILITIES:**

## Current Liabilities:

Current Portion of Bonds Payable	\$ 20,000
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Accrued Payroll and Related Liabilities	<u>663</u>
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TOTAL CURRENT LIABILITIES	<u>20,663</u>
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## Long-Term Liabilities:

Bonds Payable – Long-Term Portion	<u>100,000</u>
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TOTAL LIABILITIES	<u>120,663</u>
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**NET ASSETS:**

Investment in Capital Assets (Net of Debt)	995,838
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Unrestricted	<u>19,120</u>
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TOTAL NET ASSETS	<u>\$ 1,014,958</u>
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**Statement of Revenues, Expenses, and  
Changes in Net Assets  
For the Year Ended June 30, 2006****OPERATING REVENUE:**

Charges for Services – Users	\$ 33,482
Miscellaneous	<u>10,416</u>
<b>TOTAL OPERATING REVENUES</b>	<u><b>43,898</b></u>

**OPERATING EXPENSES:**

Wages	14,115
Payroll Taxes	1,135
Supplies	847
Board Fees	870
Vehicle Expense	225
Insurance	6,661
Repairs and Maintenance	9,286
Utilities	2,725
Miscellaneous	<u>2,780</u>
<b>TOTAL OPERATING EXPENSES BEFORE DEPRECIATION</b>	<u><b>38,644</b></u>

Operating Income (Loss) Before Depreciation	5,254
Less Depreciation	<u>(67,540)</u>
<b>TOTAL OPERATING INCOME (LOSS)</b>	<u><b>(62,286)</b></u>

**NON-OPERATING INCOME (EXPENSE):**

Interest Earnings	148
Local Contributions	27,000
Interest Expense – Long-Term Debt	<u>(7,000)</u>

Net Non-Operating Income (Expense)	<u>20,148</u>
Changes in Net Assets	(42,138)
<b>NET ASSETS, JULY 1</b>	<u><b>1,057,096</b></u>
<b>NET ASSETS, JUNE 30</b>	<u><u><b>\$ 1,014,958</b></u></u>

**Statement of Cash Flows  
For the Year End June 30, 2006****CASH FLOWS FROM OPERATING ACTIVITIES:**

Receipts from Customers	\$ 43,898
Payments to Employees	(16,314)
Payments to Suppliers	(23,394)
Net Cash Provided (Used) by Operating Activities	<u>4,190</u>

**CASH FLOWS FROM NONCAPITAL AND RELATED  
FINANCING ACTIVITIES:**

Local Contributions	<u>27,000</u>
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>27,000</u>

**CASH FLOWS FROM CAPITAL AND RELATED  
FINANCING ACTIVITIES:**

Acquisition and Construction of Capital Assets (net)	(19,272)
Interest Paid on Bonds	(7,000)
Principal paid on Bonds	(20,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(46,272)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest on Investments	<u>148</u>
Net Cash Provided (Used) by Investing Activities	<u>148</u>
Net Cash Provided (Used) - All Activities	(14,934)
Cash and Cash Equivalents at Beginning of the Year	<u>34,717</u>
Cash and Cash Equivalents at End of the Year	<u>\$ 19,783</u>

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET  
CASH PROVIDED (USED) BY OPERATING ACTIVITIES:**

Operating Income (loss)	\$ (62,286)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	67,540
Change in Assets and Liabilities	
Accrued Liabilities	<u>(1,064)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 4,190</u>

## **Notes to Financial Statements**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Pickford Utility Authority, conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the Authority:

**A – Reporting Entity:****Financial Reporting Entity**

The financial statements of the Authority include the following operation: Pickford Area Wastewater Treatment Facility. The operation listed above is included because the Authority has direct oversight responsibility over each operation.

The Authority is a separate public municipal authority incorporated by Pickford Township, Chippewa County, and Marquette Township, Mackinac County pursuant to the Joint Sewage and Water Authority Act, Act 233, Public Acts of Michigan, 1955, as amended, for the purpose of acquiring, owning, improving, enlarging, extending, operating, and financing a sewage disposal system or a water supply system or both on behalf of its incorporating municipalities and to provide water or sewage disposal services to area municipalities. The Pickford Utility Authority is governed by a five member board, which is comprised of four Commissioners from Pickford Township and one Commissioner from Marquette Township. The Commissioners are appointed by the Supervisor of Pickford Township with the advice and consent of the governing body of said Township.

**B – Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of revenues, expenses and changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

**C – Measurement Focus, Basis of Accounting and Financial Statement Presentation:**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

All other revenue items are considered to be available only when cash is received by the government.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary fund relate to charges to customers for sewage disposal. Operating expenses for proprietary funds include the cost of sales and services, and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**D - Assets, Liabilities, and Net Assets or Equity:**

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Deposits are recorded at cost.

Inventories and Prepaid Items – All inventories, including the cost of supplies, are expensed when purchased. Expenditures for insurance and similar services are expensed when paid.

Capital Assets – Capital assets, which include property, plant, and equipment, infrastructure assets (e.g., sewer lines and similar items) are reported in financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation – Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Sewer System	40 years
Machinery & Equipment	5-10 years
Storage Buildings	15 years

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in business-type activities.



**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

**NOTE 2 - CASH AND EQUIVALENTS:**Statutory Authority:

Michigan law (Act 196 PA 1997) authorizes the Authority to deposit and invest in one or more of the following:

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

**NOTE 2 - CASH AND EQUIVALENTS: (Continued)**

The Authority's deposits are in accordance with statutory authority. The Authority's deposits are located in several local financial institutions. All deposits are carried at cost.

<u>Balance Sheet Account</u>		<u>Cash Items</u>	
Cash and equivalents	\$ 19,783	Checking	\$ 16,216
		Savings	3,567
	<u>\$ 19,783</u>		<u>\$ 19,783</u>

*Interest rate risk.* The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk.* State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Authority has no investment policy that would further limit its investment choices.

*Custodial deposit credit risk.* Custodial deposit credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year end, \$0 of the Authority's bank balance of \$19,828 was exposed to credit risk because it was uninsured and uncollateralized.

**NOTE 3 - CAPITAL ASSETS:**

Capital Asset activity for the Authority for the current year was as follows:

	<u>Balance 07/01/05</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 06/30/06</u>
<b>Business-Type Activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 21,000	\$ -	\$ -	\$ 21,000
Subtotal	<u>21,000</u>	<u>-</u>	<u>-</u>	<u>21,000</u>
<i>Capital assets being depreciated:</i>				
Building	52,823	-	-	52,823
Sewer System	2,582,228	19,272	-	2,601,500
Equipment	<u>97,922</u>	<u>-</u>	<u>-</u>	<u>97,922</u>
Subtotal	<u>2,732,973</u>	<u>19,272</u>	<u>-</u>	<u>2,752,245</u>

**NOTE 3 - CAPITAL ASSETS: (Continued)**

	Balance 07/01/05	Increases	Decreases	Balance 06/30/06
<b>Business-Type Activities:</b>				
Less accumulated depreciation for:				
Building	35,496	1,644	-	37,140
Sewer System	1,465,506	64,837	-	1,530,343
Equipment	88,865	1,059	-	89,924
Subtotal	1,589,867	67,540	-	1,657,407
Net Capital Assets being Depreciated	1,143,106	(48,268)	-	1,094,838
Capital Assets – Net of Depreciation	<u>\$ 1,164,106</u>	<u>\$ (48,268)</u>	<u>\$ -</u>	<u>\$ 1,115,838</u>

**NOTE 4 - LONG-TERM DEBT:**

The Authority has issued general obligation bonds for the construction of the Pickford Area Wastewater Treatment Facility. The Pickford Utility Authority 1982 Sewage Disposal System Bonds were issued in September 1982. The total issue was for \$516,000 at a rate of five percent per annum payable semi-annually. Bonds maturing in the years 1984 to 2012, inclusive, will be subject to redemption prior to maturity, in reverse numerical order, at the option of the Authority on any one or more interest payment dates on or after September 1, 1992, at the par value thereof and accrued interest to the date fixed for redemption without premium or penalty.

The following is a summary of the long-term debt transactions of the Authority for the year ended June 30, 2006.

Balance at July 1, 2005	\$ 140,000
Long-term debt retired	<u>(20,000)</u>
Balance at June 30, 2006	120,000
Less: Current Portion	<u>(20,000)</u>
Long-Term Portion	<u>\$ 100,000</u>

**NOTE 4 - LONG-TERM DEBT: (Continued)**

Maturities of principal and interest over the remaining life of the bonds payable are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	20,000	6,000	26,000
2008	20,000	5,000	25,000
2009	20,000	4,000	24,000
2010	20,000	3,000	23,000
2011	20,000	2,000	22,000
2012	<u>20,000</u>	<u>1,000</u>	<u>21,000</u>
Total	<u>\$ 120,000</u>	<u>\$ 21,000</u>	<u>\$ 141,000</u>

**NOTE 5 - RISK MANAGEMENT:**

The Authority is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Authority has purchased commercial insurance for property loss, torts, and worker's compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of coverage in any of the past three fiscal years.

**NOTE 6 - RELATED PARTIES:**

The Pickford Utility Authority was created by the Township of Pickford and the Township of Marquette to provide sewer services for the two municipalities. The two units bill and collect special assessment taxes billed to the public for the debt of the system. The Authority in turn bills the municipalities for debt service fees. The two municipalities are ultimately responsible for the operation and debt of the Authority.

## **Report on Compliance**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Pickford Utility Authority  
Pickford, Michigan 49774

We have audited the financial statements of the business-type activities and major fund of the Pickford Utility Authority, as of and for the year ended June 30, 2006, which collectively comprise the Pickford Utility Authority's basic financial statements and have issued our report thereon, dated August 24, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Pickford Utility Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Pickford Utility Authority in a separate letter dated August 24, 2006.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Pickford Utility Authority's financial statements are free of material misstatement, we performed a test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

August 24, 2006



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KENNETH A. TALSMAN, CPA, PRINCIPAL  

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DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**REPORT TO MANAGEMENT**

Board of Directors  
Pickford Utility Authority

We have audited the financial statements of the Pickford Utility Authority for the year ended June 30, 2006, and have issued our report thereon dated August 24, 2006. Professional standards require that we provide; you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Pickford Utility Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Pickford Utility Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our test was not to provide and opinion on compliance with such provisions.



### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of the accounting policies and their application. The significant accounting policies used by the Pickford Utility Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Pickford Utility Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Pickford Utility Authority's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Pickford Utility Authority, either individually or in the aggregate indicate matters that could have a significant effect on the Pickford Utility Authority's financial reporting process.

### **Disagreement with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultation with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Pickford Utility Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in the performance of our audit.

### **Comments and Recommendations**

#### **Segregation of Duties** – Repeat Comment

Within the present plan of organization of the Authority, there is an inadequate control over cash transactions caused by an inadequate segregation of duties, which is due to the limited number of office personnel employed. We recommend a review of current cash controls and implementation of procedures would increase the separation of these functions to a reasonable extent or implement review procedures to assure proper recording and authorization of funds.

#### **Capital Assets** – Repeat Comment

After reviewing the current procedures for capital assets acquisition, we noted that the current procedure placed capital assets within the account "Repairs and Maintenance". We recommend that the Authority classify all new purchases in the capital asset category in which they belong and depreciate them appropriately.

#### **Cash Receipts**

We recommend that the Authority purchase and use prenumbered receipt books. Using receipt books would enhance internal controls relating to cash collections.

### **Conclusion**

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This report is intended solely for the information and use of management and the Board of Directors of Pickford Utility Authority, and is not intended to be and should not be used by anyone other than these specified parties.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

August 24, 2006